STUC

Labour Market Report

- March 2013

There is a Better Way

1 Introduction

Throughout the prolonged economic downturn, the STUC has sought to highlight trends in the labour market often overlooked in mainstream political discourse. Examples include:

- ***The declining number of full-time jobs*** – which have fallen by nearly 140,000 since the start of the 2008/09 recession.
- ***The increase in part-time employment*** – up by 55,000 since the start of the 2008/09 recession.
- ***Increasing part-time and full-time under-employment*** **-** the number of underemployed in Scotland is approaching the quarter of a million mark.
- ***Increasing self-employment*** – with the new cohort of self-employed exhibiting very different characteristics than the pre-existing cohort: working less hours, earning less pay, paying less tax, more reliant on in-work benefits.
- ***Long-term unemployment*** – which continues to rise at a worrying pace across most cohorts.
- ***Youth unemployment*** – which has attracted more attention than these other trends but which, as this report will demonstrate, is not improving at the rate claimed by the Scottish Government.
- ***Rising inactivity*** – particularly amongst women.

This latest in the series of STUC Labour Market Reports focuses on:

- ***The current state of the labour market*** – challenging misleading presentation of data particularly in respect to youth unemployment and falling unemployment.
- ***Falling real wages*** **–** median wages have fallen in real terms by 6.4% since the start of the recession. This means that a worker on median pay is now £27 a week or £1410 a year worse off.
- ***The low level of spend on active labour market interventions*** – while lack of demand remains the key factor explaining high unemployment, the lack of investment in active labour market measures is hampering the ability of people to boost skills and confidence to enable them to grasp opportunities in the future.

2 Unemployment

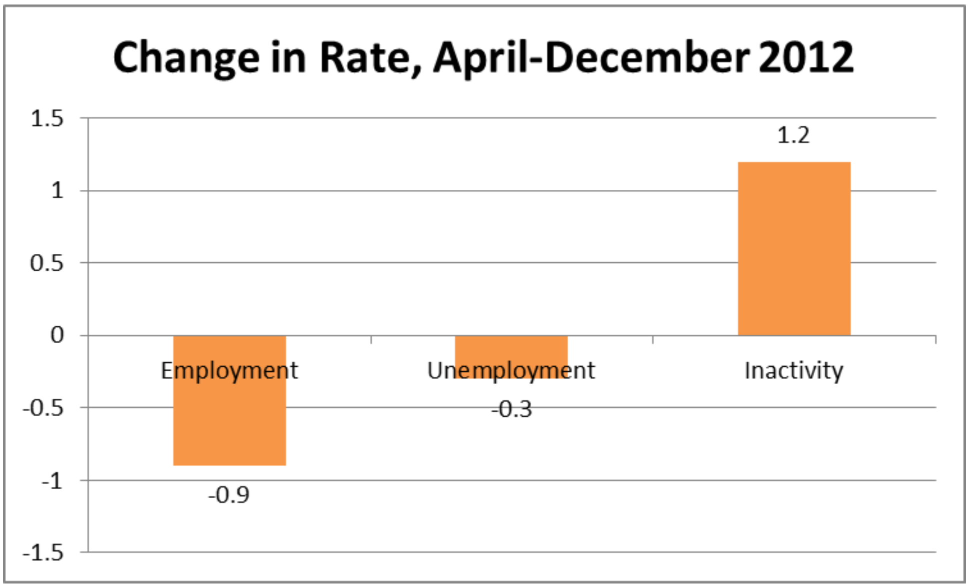
By focusing on falling unemployment in Scotland, much recent commentary has neglected the trends that unequivocally demonstrate that demand for labour remains extremely weak.

The reporting of headline labour market data using three-month rolling averages means that there is often a significant degree of double counting in the figures. The following table contains the headline unemployment data contained in ONS labour market reports over the last year[i]:

Date of release	**Period covered**	**ILO unemployment**	**Fall/increase**
January 2012	Sept-Nov 2011	231,000	
February	Oct-Dec	231,000	
March	Nov-Jan	234,000	
April	Dec-Feb	219,000	Fall of 12k on Sep-Nov
May	Jan-March	221,000	Fall of 10k on Oct-Dec
June	Feb-April	220,000	Fall of 14k on Nov-Jan
July	March-May	215,000	Fall of 4k on Dec-Feb
August	April-June	214,000	Fall of 6k on Jan-March
September	May-July	223,000	Rise of 3k on Feb-April
October	June- August	222,000	Rise of 7k on Mar-May
November	July-September	218,000	Rise of 4k on Apr-June
December	August-October	***204,000***	***Fall of 19k on May-July***
January 2012	September-November	***207,000***	***Fall of 14k on June-August***
February	**October-December**	***206,000***	***Fall of 12k on July-Sept***

The significant level of double counting over the last three releases is obvious: focusing on the numbers in the right hand column, which suggest significant falls in unemployment each month, obscures the fact that unemployment essentially flat-lined towards the end of last year.

Indeed, the situation is actually worse when the fall in employment and rise in economic inactivity are taken into account:



Although unemployment fell over the second half of last year (by approx. 16,000), *employment* fell by 11,000 in 3 months to December 2012 and by 40,000 in the six months between June and December; it's still nearly 100,000 below its pre-recession peak. Of the 12 ONS nations/regions, only Northern Ireland performed worse than Scotland over the past year.

Rather than people finding jobs, the fall in unemployment in the second half of 2012 is attributable to people leaving the labour force altogether. Over the three months to December 2012, *economic inactivity* increased by 9,000 and by 27,000 over the year. Scotland (0.8%) has seen a much bigger rise in inactivity over the year than any other ONS nation/region; indeed, 8 regions saw a fall in inactivity over this period and two witnessed no change. Wales (0.1%) was the only other nation/region in which inactivity actually increased.

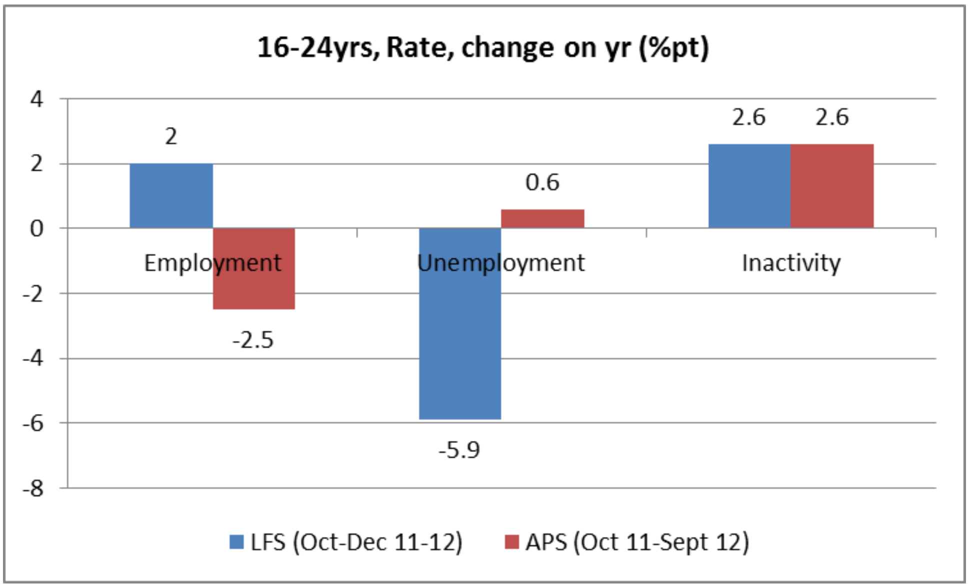
At a time when the women's unemployment level and rate has fallen significantly over the year (by 18% compared to 6% for men), it is crucial to stress that this isn't because women are finding jobs – again, it is because they're leaving the labour market altogether: *25,000 more women became inactive over the year but only 1,000 more men*. The female inactivity rate increased by 1.5%; the male inactivity rate by 0.1%.

3 Youth unemployment

Responding to the last two sets of ONS labour market data, the Scottish Government has focused on what it described as '*the largest annual drop in the youth unemployment rate since the data series began in 2006*'.

Given that it comes free of any caveats whatsoever, the STUC does not believe this analysis is credible. The data on which the Scottish Government base this claim are described by ONS as 'experimental' which although 'derived from the same data source as the headline figures', should be used with 'caution' given the 'relatively small samples sizes and subsequent sampling variability'[ii].

Indeed, this is something which the Scottish Government recognises in its own statistical briefing[iii] which describes the Annual Population Survey as *'the preferred source for measuring youth economic activity due to the increased reliability and quality*'. Although lagging the Labour Force Survey data, the APS tells a very different story:



While it is plausible that the Annual Population Survey will begin to confirm that youth unemployment did indeed fall significantly towards the end of last year, such a fall could very well be attributable to rising inactivity not employment.

4 **Wages**

Median Gross Weekly Pay[iv] in Scotland in 2007 was £360.20. This had risen to £396.10 by 2012. However if median pay had increased in line with inflation it would have stood at £423.22 by 2012. A worker earning median pay (exactly halfway along the income distribution – half earning more, half earning less), is therefore 6.4% or £27.12 a week and £1410.24 a year worse off.

Scotland compares reasonably favourably with many others regions of the UK:

However, the distribution of earnings growth across Scotland is extremely uneven:

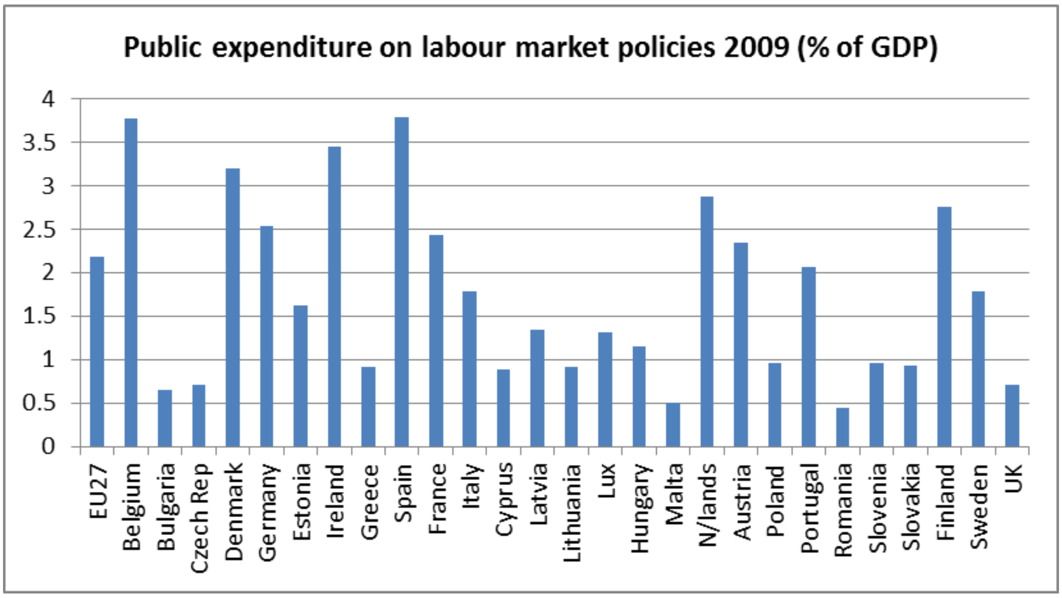
- Five (UK) constituency areas have seen (residence based) real wage declines of over 15%: Berwickshire, Roxburgh and Selkirk (15.8%); Dumfries and Galloway (24.2%); Edinburgh North and Leith (17.3%); Glasgow East (23.0%) and NE Fife (18.7%).
- Twelve (UK) constituency areas have actually seen (residence based) real wage increases over this period including Aberdeen South (2%), Caithness, Sutherland and Easter Ross (9.5%), Edinburgh South (4.2%), Cumbernauld, Kilsyth and Kirkintilloch East (5.6%) and Glasgow North West (7.3%).

The STUC will return to the issue of declining real wages in its next Labour Market Report.

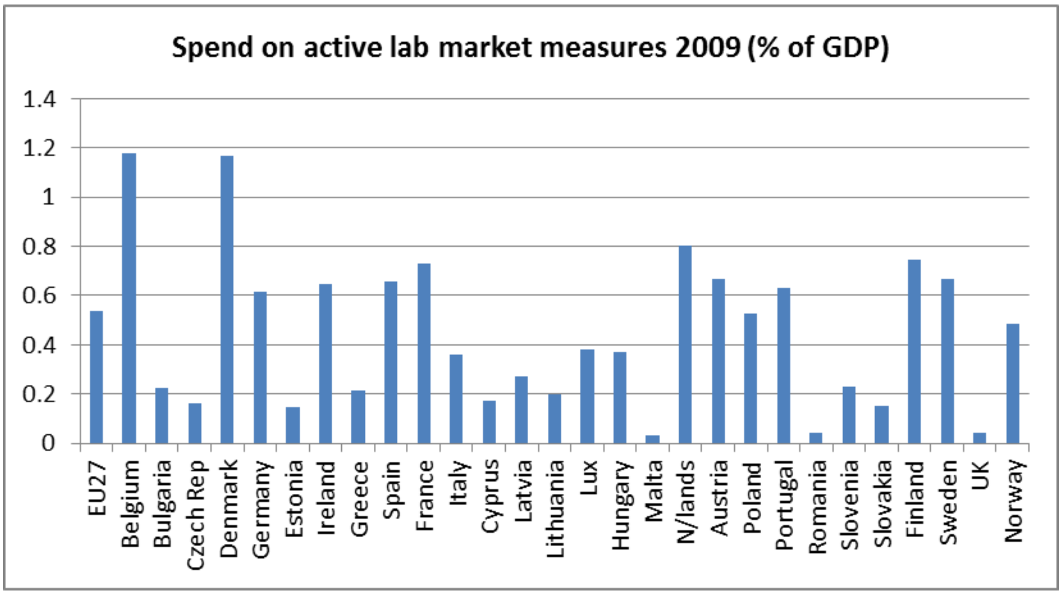
5 Active Labour Market Policy

In our 2013 Budget Submission, the STUC stressed the UK's very low levels of investment in active labour market policy arguing that a radical new approach is essential if the 'great recession' is not to leave a legacy of generational disadvantage similar to the 1980s recession.

The UK spends comparatively tiny amounts on active labour market policies[v]:

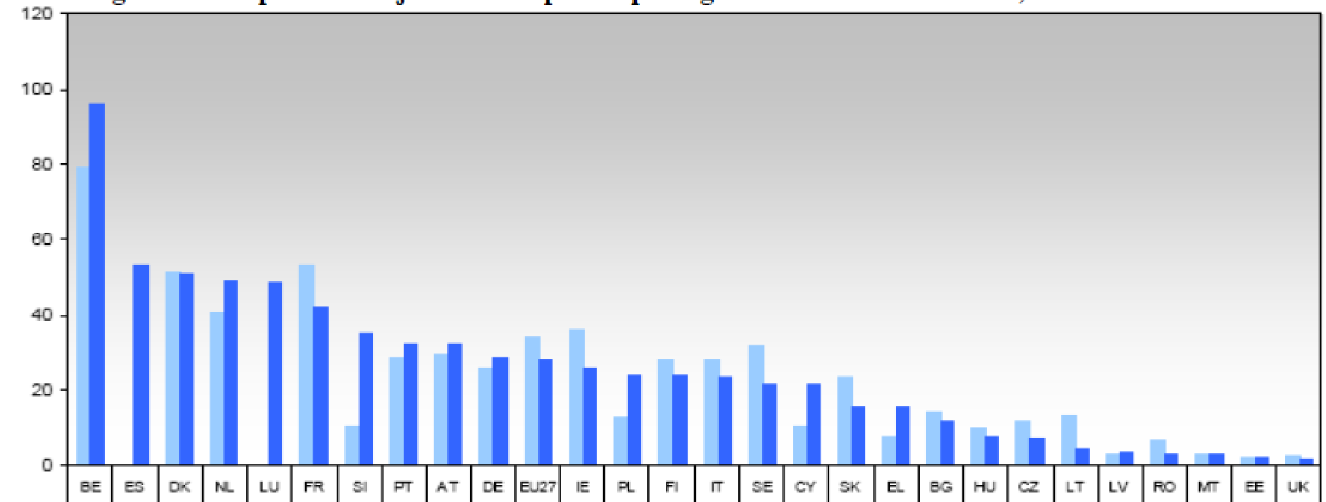


This is especially true for active labour market measures: the practical assistance such as training, employment incentives, job rotation and sharing, direct job creation, supported employment[vi]:



Fewer unemployed people in the UK participate in activation measures than any other EU nation: only 1.5% in 2010 compared to 95% in Belgium[vii].

Figure 6. Proportion of jobseekers participating in activation measures, 2007 and 2010



	BE	ES	DK	NL	LU	FR	SI	PT	AT	DE	EU27	IE	PL	FI	IT	SE	CY	SK	EL	BG	HU	CZ	LT	LV	RO	MT	EE	UK
2007	79.2		51.2	40.6		53.4	10.6	28.5	29.4	25.6	34.1	36.1	12.6	28.1	28.0	31.9	10.3	23.7	7.6	14.2	10.0	11.7	13.3	2.9	6.7	2.9	2.1	2.3
2010	96.0	53.2	51.0	48.9	48.6	42.0	35.1	32.4	32.2	28.5	27.9	25.9	24.0	24.0	23.6	21.6	21.4	15.6	15.5	11.9	7.4	7.2	4.7	3.6	3.3	2.8	2.1	1.5

Eurostat reports that '*countries with the lowest level of long-term unemployment are among those where the level of participation in ALMP is the highest…expenditure on active labour market policies is indeed more likely to reduce unemployment with a lower fiscal costs as savings may be generated on passive policies such as unemployment benefits'*[viii].

- In 2010, the latest year for which comparable statistics are provided by Eurostat, ***the UK spent less than any other EU nation on labour market measures***;
- As a % of GDP, Denmark (1.166%) spent over 28 times what the UK (0.041%) spent on active labour market measures. In 2010 Denmark spent significantly more (1.4%); UK figures are not yet available although it is fair to assume that the figures will have risen give the policy response to recession;
- Only Bulgaria, Romania and Malta spent less on labour market policies than the UK; Belgium spent over 5 times as much;
- The activation rate (the number of individuals on active measures per 100 unemployed people) of 1.5% in the UK, ***is the lowest for any EU nation***.

In our Budget Submission the STUC called for:

- The Government to remove all requirements for Mandatory Work Activity from current programmes – the evidence shows that such activity doesn't work.
- Government to increase spend on active labour market measures to EU average by 2018.
- Reestablishment of job guarantee initially limited to young people but gradually extended to other disadvantaged groups – job guarantees should be real jobs paid at least the minimum wage and with full employment rights to avoid exploitation and minimise the risk of displacing other workers.

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[i] These data are drawn from ONS Regional Labour Market releases. All headline data throughout this report have been similarly sourced and therefore, in the interests of accessibility, specific sources are not cited at every point.

[ii] Estimates of Unemployment by age (experimental statistics), ONS http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-257600

[iii] http://www.scotland.gov.uk/Topics/Statistics/Browse/Labour-Market/AnalyticalPapers/YouthEmpBrief

[iv] All data in this section drawn from Annual Survey of Hours and Earnings. Revised figures used for 2007-2011. Provisional figures used for 2012 as revised have not yet been published. http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/index.html

[v] Eurostat, labour market policies database http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_market_policy

[vi] Ibid – using 'measures 2-7' component

[vii] http://ec.europa.eu/europe2020/pdf/themes/18_almp_and_employment_services.pdf

[viii] Ibid pg 2